

PERFORMANCE AUDIT
OF THE
ARTS AND CULTURAL PROJECTS PROGRAM -
CITIES, TOWNSHIPS, AND VILLAGES

DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES

March 1998

EXECUTIVE DIGEST

ARTS AND CULTURAL PROJECTS PROGRAM - CITIES, TOWNSHIPS, AND VILLAGES

INTRODUCTION	<p>This report, issued in March 1998, contains the results of our performance audit* of the Arts and Cultural Projects Program - Cities, Townships, and Villages* (ACP-CTV), Department of Consumer and Industry Services.</p>
AUDIT PURPOSE	<p>This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and pursuant to the requirement in the Department of Consumer and Industry Services' appropriations act which requires that a representative sample of grant agreements be audited.</p>
BACKGROUND	<p>The Legislature previously appropriated funds for cultural activities to the Department's Michigan Equity Program to provide grants to cities, townships, and villages based on their population levels. For fiscal year 1994-95, the Legislature appropriated \$8,040,300 for this program.</p> <p>However, for fiscal year 1995-96, there was no distinction regarding the size of the community in the funding of grants. All cities, townships, and villages that submitted applications competed in the same selection process. In fiscal year 1995-96, the Department provided grants totaling \$1,012,500 to 25 cities, townships, and villages</p>

* See glossary on page 16 for definition.

for 37 regional cultural projects. The Michigan Council for Arts and Cultural Affairs* (MCACA) administered the fiscal year 1995-96 ACP-CTV grants.

MCACA's mission* is to advise the Governor and the director of the Department on matters relating to arts and cultural affairs and to award, fund, and disburse grants to public and private arts and cultural entities.

As of August 31, 1997, MCACA had 7 employees.

<hr/> AUDIT OBJECTIVE AND CONCLUSION	Audit Objective: To assess the effectiveness* and efficiency* of the Department's administration of ACP-CTV. Conclusion: The Department was generally effective and efficient in administering the awarding and distribution of ACP-CTV grants. However, we noted reportable conditions* related to application and application fee controls, grantee financial statements, and project monitoring (Findings 1 through 3).
<hr/> AUDIT SCOPE AND METHODOLOGY	<p>Our audit scope was to examine the program and other records of the Arts and Cultural Projects Program - Cities, Townships, and Villages. Our audit was conducted in accordance with <i>Government Auditing Standards</i> issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.</p> <p>Our methodology included assessing the internal control structure* applicable to our audit objective. Our assessment consisted of analysis of statutes and rules</p>

* See glossary on page 16 for definition.

and discussion with Department personnel to obtain an understanding of the internal control structure.

Our methodology included examinations of ACP-CTV's records and activities for the period October 1, 1995 through August 31, 1997.

We analyzed a sample of funded and nonfunded grant applications and assessed the Department's application scoring and grant awarding process to determine if grants were awarded fairly and equitably. Also, we examined a sample of funded projects and assessed the adequacy of the Department's monitoring efforts. In addition, we assessed the Department's efforts to evaluate the effectiveness of ACP-CTV in meeting its mission. Further, we verified the Department's compliance with annual appropriations act requirements for ACP-CTV.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains 3 findings and 3 corresponding recommendations. The agency preliminary response indicates that the Department agrees with all 3 recommendations and has taken or will take action to comply with the recommendations.

The Department complied or substantially complied with all 5 prior audit recommendations.

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Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the performance audit of the Arts and Cultural Projects Program - Cities, Townships, and Villages, Department of Consumer and Industry Services.

This report contains our executive digest; description of program; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Program

The Legislature previously appropriated funds for cultural activities to the Department of Consumer and Industry Services to provide grants to cities, townships, and villages based on their population levels (Type I for those with 1,000,001 or more; Type II for those with 125,001 to 1,000,000; Type III for those with 40,001 to 125,000; and Type IV for those with 40,000 or less). There were funding amounts established for each type of community. The funding for previous years was under the Michigan Equity Program - Regional Cultural Activities. For fiscal year 1994-95, the Legislature appropriated \$8,040,300 for this program.

However, for fiscal year 1995-96, there was no distinction regarding the size of the community in the funding of grants. All cities, townships, and villages that submitted applications competed in the same selection process. In fiscal year 1995-96, the Department provided grants totaling \$1,012,500 to 25 cities, townships, and villages for 37 regional cultural projects.

The Arts and Cultural Projects Program - Cities, Townships, and Villages (ACP-CTV), located within the Department, is one of 10 grant programs administered by the Michigan Council for Arts and Cultural Affairs (MCACA). ACP-CTV encourages use of the best practices by municipalities in developing and implementing arts and cultural projects. Priority is given to projects involving capital improvement, economic development, leveraging of public support through collaboration, and service to underserved areas and/or multiple counties.

MCACA was created in September 1991 by Executive Order No. 1991-21 and consists of 15 members appointed by the Governor. MCACA administered the fiscal year 1995-96 ACP-CTV grants.

MCACA's mission is to advise the Governor and the director of the Department on matters relating to arts and cultural affairs and to award, fund, and disburse grants to public and private arts and cultural entities.

MCACA processes grant applications, awards, and evaluative reports on an annual basis. Generally, grant applications are reviewed and evaluated, based upon

established criteria, by qualified panelists in public panel meetings. Panel findings and recommendations assist MCACA in determining final grant awards. Grant recipients are required to submit evaluative grant reports containing pertinent narrative and financial information. Grant awards are monitored and assessed through site visitation, consultation, and analysis.

As of August 31, 1997, MCACA had 7 employees.

Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objective

Our audit objective for the performance audit of the Arts and Cultural Projects Program - Cities, Townships, and Villages (ACP-CTV), Department of Consumer and Industry Services, was to assess the effectiveness and efficiency of the Department's administration of ACP-CTV.

Audit Scope

Our audit scope was to examine the program and other records of the Arts and Cultural Projects Program - Cities, Townships, and Villages. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed between August and October 1997 and included examinations of ACP-CTV's records and activities for the period October 1, 1995 through August 31, 1997.

We assessed the internal control structure applicable to our audit objective. Our assessment consisted of analysis of statutes and rules and discussion with Department personnel to obtain an understanding of the internal control structure.

We analyzed a sample of funded and nonfunded grant applications and assessed the Department's application scoring and grant awarding process to determine if grants were awarded fairly and equitably. Also, we examined a sample of funded projects and assessed the adequacy of the Department's monitoring efforts. In addition, we assessed the Department's efforts to evaluate the effectiveness of ACP-CTV in meeting its mission. Further, we verified the Department's compliance with annual appropriations act requirements for ACP-CTV.

Agency Responses and Prior Audit Follow-Up

Our report contains 3 findings and 3 corresponding recommendations. The agency preliminary response indicates that the Department agrees with all 3 recommendations and has taken or will take action to comply with the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Consumer and Industry Services to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department complied or substantially complied with all 5 prior audit recommendations.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS AND EFFICIENCY

COMMENT

Background: Cities, townships, and villages submit applications for funding to the Michigan Council for Arts and Cultural Affairs (MCACA) with an application fee. A peer panel* reviews applications submitted and makes evaluations and recommendations for grants based on its selection process. MCACA considers the peer panel's recommendations when making final grant award determinations and administers the grant funding distributions.

Audit Objective: To assess the effectiveness and efficiency of the Department of Consumer and Industry Services' administration of the Arts and Cultural Projects Program - Cities, Townships, and Villages (ACP-CTV).

Conclusion: The Department was generally effective and efficient in administering the awarding and distribution of ACP-CTV grants. However, we noted reportable conditions related to application and application fee controls, grantee financial statements, and project monitoring.

FINDING

1. Application and Application Fee Controls

The Department's application process did not ensure accountability over ACP-CTV applications and the proper handling of the related application fees.

Annual appropriations acts require ACP-CTV applicants to submit an application fee equal to the lesser of \$100 or 1% of the application amount. In fiscal year 1995-96, the Department received 37 ACP-CTV applications among other applications and approximately \$3,600 in related fees.

Our review disclosed that an employee did not record ACP-CTV applications and related application fees in the application control log and cash receipts journal

* See glossary on page 16 for definition.

as they were received. Also, the employee did not restrictively endorse the checks received for application fees until just prior to deposit and did not deposit application fee receipts intact on a daily basis. This employee opened the mail, maintained the application control log and cash receipts journal, and prepared bank deposits.

We noted that application fees were held approximately two weeks prior to being deposited. All of the ACP-CTV application fees were deposited on the same day. We also noted that one of the applicants paid an application fee of only \$50 instead of the required amount of \$100.

Department of Management and Budget Administrative Guide procedure 1270.02 requires the Department to promptly establish accountability over all cash receipts, to restrictively endorse checks immediately upon receipt, and to deposit revenues intact on a daily basis.

RECOMMENDATION

We recommend that the Department improve its application process to help ensure accountability over ACP-CTV applications and the proper handling of the related application fees.

AGENCY PRELIMINARY RESPONSE

The Department agrees with the recommendation and informed us that it has taken action to comply. In fiscal year 1997-98, the Department began working with its Internal Audit Division to streamline and improve the application and fee receipts process. Some of the key changes made include: deploying additional staff during high volume periods, making more frequent bank deposits, shortening the log-in process, and postponing the data entry function (until after the cash receipts have been deposited). As a result of these improvements, the Department hopes to reduce the turnaround time for depositing receipts to no more than two days.

FINDING

2. Grantee Financial Statements

The Department had not monitored the receipt of audited grantee financial statements or requested overdue audited financial statements.

Grant agreements for fiscal year 1995-96 required each grantee to submit an audit report that includes audited financial statements for the fiscal year in which the majority of the grant expenditures took place. The report was due within 90 days after the end of the grantee's fiscal year.

We reviewed a sample of 10 grants from fiscal year 1995-96 and determined that the grantees had not submitted their audit reports. The Department had not followed up with these grantees to obtain the overdue reports. There were approximately 50 Michigan Equity Program audit reports for fiscal year 1994-95 and prior years that grantees had not submitted.

RECOMMENDATION

We recommend that the Department monitor the receipt of audited grantee financial statements and request overdue audited financial statements.

AGENCY PRELIMINARY RESPONSE

The Department agrees and informed us that it has taken action to comply. The Department has begun the process of contacting delinquent grant recipients and has reminded them to submit their audit reports.

As a condition of the grant agreements, the Department requires grantees to submit interim and final reports comparing actual and budgeted grant expenditures. Although these reports are often unaudited, they provide the Department with some feedback on grant activity and performance. Obtaining the audited comprehensive annual financial reports from the grantees could provide some additional assurances. However, reports from larger communities often do not provide any detail on expenditures for the grant projects. Regardless, the Department will continue efforts to obtain these reports on a timely basis.

FINDING

3. Project Monitoring

The Department did not, in some instances, effectively monitor grantee compliance with ACP-CTV contracts.

We reviewed 10 projects associated with grants to 10 communities for fiscal year 1995-96:

- a. Three projects that had not been completed during the grant award period had not received an approved extension. Per program guidelines and grant agreements, projects that could not be fully implemented within the grant award period, April 1, 1996 through September 30, 1996, were not to be funded.
- b. Final reports were not submitted for 2 projects. Information provided to cities, townships, and villages stated that a final report covering the grant period was due within 30 days after the end of the grant period or MCACA's fiscal year, whichever came first.

RECOMMENDATION

We recommend that the Department improve its monitoring of grantee compliance with ACP-CTV contracts.

AGENCY PRELIMINARY RESPONSE

The Department agrees and will comply. MCACA reserves the right to extend any grant project for reasons it determines worthy. The Department will, however, take steps to ensure that all extensions are granted prior to the expiration date and that all final reports are received on a timely basis.

Glossary of Acronyms and Terms

Arts and Cultural Projects Program - Cities, Townships, and Villages (ACP-CTV)	The State program that offers grants to cities, townships, and villages for projects involving cultural institutions, historical projects, community organizations, zoos, convention facilities, tourism facilities, libraries, shoreline protection/waterfront development, and capital improvement or economic development.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
internal control structure	The management control environment, management information system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are used in compliance with laws and regulations; and that valid and reliable performance related information is obtained and reported.
Michigan Council for Arts and Cultural Affairs (MCACA)	The State agency responsible for administering grants to encourage, develop, and facilitate an enriched environment of artistic, creative, and cultural activity.
mission	The agency's main purpose or the reason the agency was established.
peer panel	Nine individuals familiar with regional cultural activities who are selected by MCACA to review the ACP-CTV grant applications and make recommendations to MCACA for grant awards.

performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.